



Monthly Economic Update

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This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8887

➤ **Economic Conditions.** The national economy grew a solid 4.0% in the 3rd qtr 2002. This is the 4th consecutive growth quarter following a modest recession in 2001. In fact, the 3.3% average growth rate, measured over the past twelve months, is close to the pre-recession years of 1999 (4.0%) and 2000 (3.8%).

Consumer spending, which is 2/3rd of GDP, grew 4% in the 3^d qtr 2002. However, this was largely due to a jump in car sales pushing durable goods sales up 23%, compared to lackluster growth in non-durable goods (1%) and services (2%), and suggests substantial underlying weakness, especially given the projected drop in car sales in the 4th qtr.

The latest action (11/6/02) by the FOMC to drop overnight rates by 50 basis points to a 40 year low underscores the concern by policymakers with the potential of a double-dip recession.

The leading economic indicators for the nation and Washington region suggest a weak economic outlook, reflecting a flat labor market, declining corporate profits, and negative stock market results.

➤ **Stock Markets.** Following the irrational exuberance stage of the 1995-99 bull market, when investors traded stock at a record pace in companies that either promised double-digit profit growth or the promise of future positive cash flow, the stock markets are now shrouded by a dark cloud for the 3rd year.

The bad stock market news reflects not only accounting scandals at a number of multi-national companies, but more importantly, declines in corporate profits in 2000 (-2%), 2001 (-7%), and the first three quarters of 2002 (-2%). Despite a recent rally, the S&P-500 Stock Index is poised to decline at least 20% this year – the 3rd year with double-digit declines, and the worst three year drop since the Great Depression of the 1930s.

Without a strong economic recovery, corporate profit growth will remain weak and investors will remain on the side lines. As a result, income from capital gains in Montgomery County, which is pro-

jected to have reached a record \$5.9 billion in 2000 but dropped 60% in 2001, will not rebound any time soon. Moreover, even if the stock markets rebound, investors have accumulated sufficient capital losses to reduce capital gains recognition in the near future.

➤ **Construction.** The record low mortgage interest rate environment contributed to strong residential construction growth in both the number of single-family homes (15%) and the value (5%), measured through October 2002. By contrast, construction of multi-family dwellings is down 35% during this period, resulting in an 8% drop in aggregate residential construction through October 2002.

Even though non-residential construction through October 2002 jumped 19% from 2001, growth was concentrated in education and science (52%) and public buildings (31%). Moreover, the weak economy and high office vacancy rates in the County contributed to a 56% drop in new office space.

➤ **Real Estate.** Compared to the 26% jump in home sales in 1998, the County's real estate market remains at high levels, but with little to no growth. In fact, sales are down 2% measured through October 2002.

The big story continues to be house prices not volume. The sales price of a median home in the County jumped 20% this year on top of 13% in 2001, and the reason for a projected 35% increase in County reassessments to be phased in over a three year period.

One problem with sharply rising house prices is affordability. A recent Harvard University study highlights the degree to which growth in income has not kept pace with house prices. Over the period 1997-2001, house price growth exceeded income in most major metropolitan areas of the country. Even though San Francisco ranked the worst, with house prices growing three times as fast as income, house prices in Washington grew 70% faster than income. Judging by the 20% growth in the County in 2002 affordability will have deteriorated even further.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		
				2002	2001	2001
Leading Indicators						
National	October	0.0%		2.4%		2.5%
Washington MSA	September	0.0%		0.4%		-0.9%
Consumer Confidence Index						
National	November	18.2%		-8.1%		-26.4%
South Atlantic Region	November	6.4%		-6.3%		-23.9%
Consumer Price Index						
All Items						
National	October	2.0%		1.4%		2.9%
Washington - Baltimore CMSA	September	2.1%		2.1%		2.6%
Core CPI						
National	October	2.2%		2.4%		2.7%
Washington - Baltimore CMSA	September	2.7%		3.1%		3.1%
Retail Trade						
National (sales)	October	-0.4%		3.4%		3.7%
Maryland (tax)	September	5.4%		2.3%		3.0%
Montgomery County (tax)	September	4.3%		1.7%		3.8%
Employment						
National	October	135,237,000	134,898,000	134,263,500	135,183,700	135,073,000
- Percent Change		0.3%		-0.7%		-0.1%
Washington PMSA (at place)	September	2,790,600	2,805,800	2,785,700	2,786,000	2,831,800
- Percent Change		-0.5%		0.0%		2.8%
Montgomery County (resident)	September	490,871	480,782	486,242	477,624	477,701
- Percent Change		2.1%		1.8%		0.7%
Montgomery County (payroll)	March	450,704	448,501	447,690	445,968	447,744
- Percent Change		0.5%		0.4%		4.9%
Unemployment						
National	October	5.3%	5.0%	5.8%	4.6%	4.8%
Maryland	September	3.9%	4.2%	4.6%	4.0%	4.1%
Washington PMSA	September	3.5%	3.5%	3.8%	2.9%	3.1%
Montgomery County	September	2.5%	2.7%	3.0%	2.2%	2.3%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	October	\$96,224	\$101,723	\$1,301,409	\$1,242,567	\$1,353,664
- Percent Change		-5.4%		4.7%		15.4%
Residential (\$ thousand)	October	\$66,594	\$14,026	\$603,158	\$656,899	\$682,768
- Percent Change		374.8%		-8.2%		17.2%
Non-Residential (\$ thousand)	October	\$29,630	\$87,697	\$698,251	\$585,668	\$670,896
- Percent Change		-66.2%		19.2%		13.6%
Building Permits (Residential)						
National	October	159,493	138,301	1,467,811	1,382,617	1,610,766
- Percent Change		15.3%		6.2%		1.2%
Maryland	October	2,360	2,889	24,189	24,293	28,412
- Percent Change		-18.3%		-0.4%		-6.4%
Montgomery County	October	429	352	3,644	4,308	5,091
- Percent Change		21.9%		-15.4%		13.8%
Building Permits (Non-Residential)						
Montgomery County	October	162	183	1,590	1,815	2,102
- Percent Change		-11.5%		-12.4%		23.9%
Real Estate						
National						
Sales	October	5,770,000	5,270,000	5,580,000	5,300,000	5,296,000
- Percent Change		9.5%		5.3%		2.8%
Median Price	October	\$159,600	\$145,400	\$157,000	\$145,800	\$147,800
- Percent Change		9.8%		7.7%		6.3%
Montgomery County						
Sales	October	1,296	1,223	12,908	13,132	15,489
- Percent Change		6.0%		-1.7%		4.8%
Average Price	October	\$322,140	\$270,003	\$315,267	\$272,454	\$274,522
- Percent Change		19.3%		15.7%		8.1%
Median Price	October	\$257,000	\$210,000	\$248,195	\$207,330	\$215,000
- Percent Change		22.4%		19.7%		13.2%